

Taxation of Capital Gains in New Mexico

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- **In 2003, New Mexico enacted a capital gains deduction for individuals**
 - **The deduction was part of a package of reforms intended to make the State more competitive in attracting investment and high-wage jobs**
- **The deduction is the greater of:**
 - **The taxpayer's net capital gain, up to \$1,000; or**
 - **50% of the taxpayer's net capital gain**
- **The percentage deduction was phased in between 2003 and 2007 at 10% per year until it reached the current 50% in 2007**
- **The table on the following page provides statistics on capital gains in New Mexico for 2007 (the latest complete tax year of data)**
 - **The top portion of the table shows that of the more than 1,002,000 taxpayers who filed a New Mexico income tax return in 2007, over 122,000 (12%) reported a capital gains deduction**
 - **The amount of capital gains associated with the deduction that was apportioned to New Mexico was \$3,816 million**
 - **The associated deduction was \$1,916 million**
 - **The tax savings associated with the deduction was \$88 million**
 - **The bottom portion of the table shows the percentage distribution by AGI of the amounts in the top portion**
 - **Only 5.2% of the taxpayers with capital gains have incomes (AGI) over \$1 million, but they realize 45.8% of all gains**
 - **Because tax rates rise with income, the tax savings from the capital gains deduction is somewhat more concentrated than the deduction itself (for example, taxpayers with incomes over \$1 million receive 45.6% of the deduction but 48.1% of the tax savings)**
- **Two important points about these statistics:**
 1. **They are for 2007, when realizations of capital gains were far higher than are expected in 2009 (and perhaps later years)**
 2. **The tax savings calculation is "static"; it does not take into account the effect that the deduction may play in encouraging individuals to invest in, or establish or maintain their residence in, New Mexico**

Capital Gains of Personal Income Tax Filers in New Mexico, 2007

Adjusted Gross Income (AGI)	Number of Taxpayers:		Net Capital Gains (\$ millions)	Capital Gains Deduction (\$ millions)	Tax Savings from Deduction (\$ millions)
	Total	With Capital Gains			
Loss	10,159	1,866	118.2	59.2	1.1
0 - 25,000	463,478	17,579	61.5	32.7	0.3
25,000 - 50,000	224,433	17,091	91.8	47.4	1.5
50,000 - 75,000	118,551	17,847	133.4	68.0	3.0
75,000 - 100,000	69,845	15,079	143.1	72.6	3.4
100,000 - 200,000	78,980	27,679	475.9	239.4	11.4
200,000 - 500,000	23,328	14,138	631.5	316.1	15.2
500,000 - 1,000,000	6,164	4,573	412.6	206.3	10.0
1,000,000 and Over	7,500	6,383	1,747.8	873.9	42.4
Total	1,002,438	122,235	3,815.8	1,915.6	88.3

Percent Distribution

Loss	1.0	1.5	3.1	3.1	1.2
0 - 25,000	46.2	14.4	1.6	1.7	0.3
25,000 - 50,000	22.4	14.0	2.4	2.5	1.7
50,000 - 75,000	11.8	14.6	3.5	3.6	3.4
75,000 - 100,000	7.0	12.3	3.7	3.8	3.8
100,000 - 200,000	7.9	22.6	12.5	12.5	12.9
200,000 - 500,000	2.3	11.6	16.6	16.5	17.2
500,000 - 1,000,000	0.6	3.7	10.8	10.8	11.4
1,000,000 and Over	0.7	5.2	45.8	45.6	48.1
Total	100.0	100.0	100.0	100.0	100.0